

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 AGR-05 CEA-01 CIAE-00 COME-00

DODE-00 EB-07 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04

ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00 OMB-01

SAM-01 IO-11 AF-06 ARA-06 EA-07 NEA-10 /133 W

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FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC PRIORITY 542

INFO ALL EC CAPITALS 1692

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PASS AGRICULTURE AND STR

E.O. 11652: N/A

TAGS: EAGR, EEC

SUBJECT: EC MTN TROPICAL PRODUCTS OFFER ON TOBACCO: US/EC

CONSULTATIONS FEB. 13

REF: (A) EC BRUSSELS 1484, (B) STATE 34054, (C) 75 EC BRUSSELS 05975, (D) 75 EC BRUSSELS 08421

1. SUMMARY. COMMISSION OFFICIALS GAVE US PRICE AND QUANTITY DATA ON EC TOBACCO IMPORTS AND EXPLAINED HOW THEIR PECULIAR VALUATION SYSTEM HAS PUSHED SOME INDIAN TOBACCO INTO CXT 24.01A. THEY REITERATED THEIR CONTENTION THAT THE PROPOSED GSP CONCESSIONS WOULD NOT SIGNIFICANTLY AFFECT U.S. EXPORTS--WHICH THEY DISPUTED-- AND STATED THAT THERE WERE OVERWHELMING POLITICAL REASONS DICTATING THE INCLUSION OF TOBACCO IN THEIR TROPICAL PRODUCTS OFFER. THEY SOLICITED SPECIFIC SUGGESTIONS FOR MODIFICATION OF THE EC OFFER BUT WERE UNWILLING TO MAKE A COMMITMENT TO GRANT EQUIVALENT MFN CONCESSIONS ON TOBACCO. WASHINGTON MAY WISH TO CONSIDER

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REQUESTING THAT THE EC INCLUDE IN ITS TROPICAL PRODUCTS

OFFER A COMMITMENT TO AMEND ITS VALUATION PROCEDURE IN LIEU OF
GRANTING A GSP CONCESSION ON CXT 24.01 A AND THAT THE PROPOSED
TARIFF QUOTA FOR CXT 24.01 B BE REDUCED. END SUMMARY.

2. ON FEBRUARY 13, IN THE SECOND DAY OF MEETINGS BETWEEN
PHAN VAN PHI AND TRAN VAN THINH (COMMISSION'S DIRECTORATE GENERAL
FOR EXTERNAL RELATIONS), LANDE (STR) AND MISSION OFFICIALS,
THE EC'S PROPOSED TROPICAL PRODUCTS OFFER ON TOBACCO WAS AGAIN
DISCUSSED. TRAN PROVIDED US WITH THE FOLLOWING TRADE AND IMPORT
PRICE DATA FOR 1974:

CXT CATEGORY COUNTRY OF ORIGIN QUANTITY(1,000 MT)

24.01A	TOTAL	63
U.S.	39	
CANADA	16	
DEVELOPING COUNTRIES	8	
OF WHICH		
MALAWI	3	
CAMEROON	1	
TANZANIA	1	
ANGOLA	.5	
INDONESIA	2	

VIRGINIA-TYPE TOBACCO

UNDER 24.01B	TOTAL	200
U.S.	46	
DEVELOPING COUNTRIES	115	
OF WHICH		
ACP	12	
MOZAMBIQUE AND ANGOLA	15	
INDIA	35	
BRAZIL	16	
SOUTH KOREA	15	
PAKISTAN	8	
THAILAND	6	
PHILLIPINES	3	
ARGENTINA	2	
YUGOSLAVIA	2	
CENTRAL AMERICA		

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(AND CUBA)	1
SRI LANKA	.5
INDONESIA	.3

PRICES:

24.01 A(VIRGINIA)	U.S.	330-UK MARKET
24.01A(BURLEY)	U.S.	350-UK MARKET

24.01B(VIRGINIA) INDIA 225-UK MARKET
BRAZIL 150-EC AVERAGE
ARGENTINA 106-EC AVERAGE
U.S. 200-EC AVERAGE

3. TRAN INDICATED THAT ALL IMPORTS UNDER CXT 24.01 A FROM THE U.S. WERE EITHER VIRGINIA (60 PERCENT) OR BURLEY (40 PERCENT) TOBACCO

HE DID NOT HAVE A BREAKDOWN OF IMPORTS UNDER CXT 24.01B (EXCEPT FOR VIRGINIA TOBACCO) BUT SAID THAT IMPORTS OF BURLEY FROM THE U.S. WERE ABOUT 10,000 TONS. TRAN SAID HE DID NOT HAVE FIGURES FOR 1975 BUT THAT THERE WERE STRONG INDICATIONS THEY WERE QUITE SIMILAR. HOWEVER, BECAUSE OF THE PECULIARITIES OF THE EC VALUATION SYSTEM (DESCRIBED IN PARA 5), HE ESTIMATED THAT ABOUT 5,000 TONS OF INDIAN VIRGINIA-TYPE TOBACCO HAD MOVED INTO CXT 24.01 A IN 1975 LEAVING 30,000 TONS IN CXT 24.01 B. (COMMENT: IF SUBSTANTIAL QUANTITIES OF INDIAN TOBACCO MOVED INTO CXT 24.01A, WE WOULD EXPECT THAT A SIMILAR OR EVEN GREATER SHIFT OCCURRED WITH RESPECT TO U.S. TOBACCO. END COMMENT). TRAN ALSO SAID THAT THE GSP QUOTA WAS ALWAYS COMPLETELY FILLED WITH INDIA ACCOUNTING FOR ABOUT 80 PERCENT FOLLOWED BY BRAZIL, SOUTH KOREA, PAKISTAN, SRI LANKA, YUGOSLAVIA AND THAILAND (IN ORDER OF IMPORTANCE).

4. TRAN SAID THAT THE COMMISSION'S POLICY RE TOBACCO IMPORTS REFLECTED A BALANCE BETWEEN THE INTERESTS OF EC PRODUCERS, THE ACP COUNTRIES (AS WELL AS GREECE AND TURKEY), THE OTHER DEVELOPING COUNTRIES, AND, OF COURSE, DEVELOPED SUPPLIERS SUCH AS THE U.S. HE REITERATED HIS CONTENTION THAT THE PROPOSED GSP CONCESSIONS WOULD NOT HURT THE U.S. BECAUSE OF THE GREAT PRICE DIFFERENCES BETWEEN U.S. AND LDC TOBACCO. WE COUNTERED THAT THE PROPOSED CONCESSION FOR CXT 24.01 A (8 PERCENT WITH A 45 U.S./100 KG. MAXIMUM) WOULD ESTABLISH A VERY SUBSTANTIAL MARGIN OF PREFERENCE FOR DEVELOPING COUNTRIES FOR TOBACCO VALUED FROM LIMITED OFFICIAL USE

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280 TO 400 U.A./100 KGS.--PRECISELY THE AREA WHERE MOST U.S. TOBACCO COMING IN UNDER 24.01 A WOULD FALL. THE EFFECT OF THE PROPOSED GSP CONCESSION WOULD NOT BE COMPLETELY NEGATED (I.E., THE 45 U.A. MAXIMUM REACHED) UNTIL IMPORT PRICES REACHED 562 U.A./100 KGS. FURTHERMORE, WE NOTED THAT EC PRICE DATA GAVE US THE IMPRESSION THAT IMPORT PRICES OF U.S. TOBACCO WERE DISTRIBUTED ALONG A VERY WIDE RANGE EXTENDING FROM 24.01B TO 24.01A; THUS, IT COULD NOT BE SAID THAT OUR EXPORTS WERE SO HIGH-PRICED AS TO BE NON-COMPETITIVE WITH THE TOBACCOES OF DEVELOPING COUNTRIES.

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TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00 OMB-01 EURE-00

SAM-01 IO-11 AF-06 ARA-06 EA-07 NEA-10 /133 W

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5. WE ALSO DISCUSSED AT SOME LENGTH THE EC PROCEDURE FOR DETERMINING WHETHER TOBACCO IMPORTS FALL ABOVE OR BELOW THE 280 U.A./100 KG. BREAK-POINT. EC CUSTOMS RULES SPECIFY THAT IMF RATES MUST BE USED IN CONVERTING UNITS OF ACCOUNTS TO NATIONAL CURRENCIES. AS THESE IMF RATES ARE NOW GREATLY AT VARIANCE WITH THE MARKET RATES OF SOME NATIONAL CURRENCIES, THIS PROCEDURE CAN RESULT IN THE SAME (DOLLAR) VALUE IMPORT BEING CLASSIFIED IN CXT 24.01A IN ONE MEMBER STATE AND IN 24.01B IN ANOTHER. IT TENDS TO PUSH TOBACCO IMPORTS INTO 24.01A IN THOS MEMBER STATES (SUCH AS UK AND ITALY) WHOSE CURRENCIES HAVE DEPRECIATED AND, CONVERSELY, TO KEEP TOBACCO IMPORTS OF COUNTRIES WITH APPRECIATING CURRENCIES (GERMANY) IN 24.01B. IT IS BECAUSE THIS PROCEDURE HAS PUSHED SOME INDIAN TOBACCO EXPORTS TO THE UK INTO 24.01A THAT THERE IS PRESSURE TO ESTABLISH A GSP PREFERENCE FOR THAT CATEGORY.

EXAMPLE: U.K.

IMPORT PRICE \$300/100 KG. X MARKET RATE (POUNDS .495) EQUAL POUNDS 148.50/100 KG.

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TARIFF BREAKPOINT 280 U.A./100 KG. X IMF RATE (POUNDS .42 EQUAL 1 U.A.) EQUAL POUNDS 117.60

GERMANY

IMPORT PRICE \$300/100 KG. X MARKET RATE (2.61DM EQUAL \$1) EQUAL DM783/100 KG.
TARIFF BREAKPOINT 280 UA./100 KG X IMF RATE (3.66 EQUAL 1 U.A.) EQUAL 1024.80 DM/100 KG.
THUS, AN IMPORT PRICED AT \$300/100 KG. WOULD FALL UNDER 24.01 A IN THE UK AND 24.01 B IN GERMANY.

6. IN SUMMING UP, THE COMMISSION OFFICIALS SAID THERE WERE OVERWHELMING POLITICAL REASONS WHY THEY HAD TO INCLUDE TOBACCO ON THYLTJDXGWN#THEIR PRINCIPAL CONCERN SEEMED TO BE OVER THOSE INDIAN PRODUCERS ACCUSTOMED TO LOW DUTIES IN THE UK MARKET. TRAN SOLICITED SPECIFIC REQUESTS AS TO HOW TO LIMIT THE DAMAGE TO THE U.S. HOWEVER, PHAN CAUTIONED THAT THE COMMISSION MIGHT NO LONGER BE ABLE TO DO ANYTHING SINCE THE MATTER WAS NOW IN THE HANDS OF THE MEMBER STATES. LANDE REPLIED THAT THE MOST CLEARCUT WAY WOULD BE A COMMITMENT TO GRANT EQUIVALENT CONCESSIONS TO THE U.S. IT WAS UNREASONABLE TO EXPECT THAT U.S. EXPORTERS BEAR THE BURDEN OF THE EC'S TARIFF OFFER. THE COMMISSION REPRESENTATIVES WERE CLEARLY UNABLE OR UNWILLING TO MAKE THAT COMMITMENT. INSTEAD, TRAN ASKED WHICH DID WE VIEW AS MOST DAMAGING, THE PROPOSED GSP IMPROVEMENTS FOR 24.01A OR 24.01B? WE REPLIED THAT THE PROPOSALS WERE NOW BEING ANALYZED IN WASHINGTON AND THAT THE DATA FURNISHED US TODAY WOULD PERHAPS BE USEFUL IN THIS ANALYSIS. HOWEVER, WE NOTED THAT SINCE THE "NEED" FOR A CONCESSION IN 24.01 A TO TAKE CARE OF THE INDIANS RESULTED FROM THE EC'S PECULIAR CUSTOMS PROCEDURES, IT WOULD BE BETTER TO AMEND THESE PROCEDURES THAN TO INTRODUCE A CONCESSION THAT WOULD GREATLY COMPLICATE US-EC RELATIONS. TRAN ARGUED THAT THE COMMISSION HAD CONSIDERED THIS IDEA BUT THOUGHT THAT IT WOULD TAKE TOO LONG TO GET SUCH A BASIC CHANGE MADE IN THE EC SYSTEM OF CUSTOM VALUATION.

7. IN VIEW OF THE STRONG PROSPECT OF EC INCLUSION OF TOBACCO WASHINGTON MAY WISH TO CONSIDER MAKING AN EFFORT TO TRY TO ALTER THE EC PROPOSAL SO THAT IT IS LESS HARMFUL TO THE U.S. WE DO NOT KNOW WHETHER THE EC WOULD BE RECEPTIVE TO SUCH AN EFFORT. ONE POSSIBILITY WOULD BE AS FOLLOWS:

CXT 24.01--IN LIEU OF INTRODUCING A GSP PREFERENCE, THE EC LIMITED OFFICIAL USE

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SHOULD MAKE A COMMITMENT TO MODIFY ITS VALUATION PROCEDURE FOR TOBACCO BY MID-1977 OR SOONER(PERMITTING INDIAN TOBACCO EXPORTS TO THE UK TO DROP BACK INTO 24.01B). REVAMPING OF EC TARIFF RULES WITH RESPECT TO MONETARY CONVERSION IS CURRENTLY BEING CONSIDERED AND ADJUSTMENT OF THE CURRENT SYSTEM WOULD ULTIMATELY SEEM INEVITABLE. IF NECESSARY, SPECIAL RULES COULD BE LAID DOWN FOR TOBACCO; A PRECEDENT EXISTS IN THE CASE OF CHEESE

FOR WHICH "GREEN" RATES RATHER THAN IMF RATES ARE USED FOR CONVERSION. IF SOMETHING MORE IS NEEDED TO SWEETEN THE POT, THE EC SHOULD ELIMINATE THE DISTINCTION BETWEEN 24.01 AI AND II AND SET A 45. U.A./100 KG. MAXIMUM TARIFF FOR ALL OF CXT 24.01A --AN MFN CONCESSION WHICH WOULD ALMOST ENTIRELY BENEFIT DEVELOPING COUNTRIES. SUCH ACTION WOULD HAVE THE ADDITIONAL BENEFIT OF RESOLVING AN EMBRYONIC US-EC DISPUTE OVER THE PROPER IDENTIFICATION OF FLUE-CURED VIRGINIA AND LIGHT AIR-CURED BURLEY TOBACCO FOR PURPOSE OF TARIFF CLASSIFICATION (SEE REFS C AND D).

CXT 24.01 B-- A REDUCTION IN THE PROPOSED TARIFF QUOTA (50,000 TONS) COULD BE REQUESTED. SEVERAL ASPECTS OF THE EXISTING EC PROPOSAL SHOULD BE NOTED:

(1) THE PROPOSED INCREASE IN THE MINIMUM GSP TARIFF (19 U.A./100 KG.), IS HIGHER THAN THE CURRENT MAXIMUM GSP TARIFF (15 U.A./100 KG.) AND WOULD MEAN THAT THE MARGIN OF PREFERENCE WOULD BE SOMEWHAT SMALLER FOR ALL TOBACCO ENTERING UNDER THE PREFERENTIAL TARIFF QUOTA; (2) THE OPENING OF THE TARIFF QUOTA TO OTHER TYPES OF TOBACCO (THAN VIRGINIA) COULD MEAN THAT SOME PORTION OF THE QUOTA MIGHT BE TAKEN UP BY TOBACCOES NOT AS DIRECTLY COMPETITIVE WITH U.S. EXPORTS. HINTON

NOTE BY OC/T: PARA 6 LINE 3 #AS RECEIVED

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Message Attributes

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